October 2000

Equatorial Guinea

Recent offshore oil discoveries, and the prospects for additional finds, make Equatorial Guinea one of the leading areas for oil exploration in sub-Saharan Africa.

Note: Information contained in this report is the best available as of October 2000 and can change.

GENERAL BACKGROUND

The provinces of Fernando Po (the current island of Bioko) and Rio Muni (the mainland province and smaller islands) were joined in 1963 under Spanish rule to form Equatorial Guinea. Spain granted the newly formed state the right to partial self-government until independence was achieved in 1968. President Teodoro Obiang Nguema Mbasogo was re-elected in February 1996 for a seven-year term and in the March 1999 legislative election the ruling Partido Democratico de Guinea Ecuatorial (PDGE) won 75 of 80 seats contested. The next presidential election is scheduled for 2003 and the legislative election is slated for 2004.

Equatorial Guinea's economy traditionally has relied heavily upon agriculture (primarily cocoa, coffee and timber). Recent economic developments in Equatorial Guinea have been dominated by rapid growth in the country's oil sector. Real gross domestic product (GDP) growth was 15% in 1999, down from the 22% growth in 1998 and an amazing 71.2% GDP growth witnessed in 1997. Annual U.S. investment (almost exclusively in the oil/energy sectors) is estimated at nearly $5 billion. The figure places Equatorial Guinea fourth in American investments in sub-Saharan Africa, behind only South Africa, Nigeria, and Angola. While oil sector expansion has spurred new construction in the capital, Malabo, other sectors of the economy have stagnated, with the exception of the growing timber export industry. Consumer price inflation declined slightly, from 6.5% in 1998 to 6% at the end of 1999.

Foreign aid historically has been an important part of the Equatorial Guinea's economy, but aid programs have been suspended in recent years due to allegations of government mismanagement and corruption. The World Bank (WB), International Monetary Fund (IMF), African Development Bank (AfDB) and the European Union (EU) have provided substantial external financing to Equatorial Guinea. The EU and the WB have suspended their involvement in Equatorial Guinea, but the EU has stated that a gradual resumption of aid will resume in step with democratic reforms in Equatorial Guinea. Despite the suspension, Equatorial Guinea is still under consideration for project funding from the International Development Association (IDA), a member of the WB Group. Equatorial Guinea still enjoys normal relations with the AfDB, which has financed 15 loans and five grants in the country. The IMF-negotiated enhanced structural adjustment facility (ESAF) with Equatorial Guinea expired in 1996. Article IV consultations were last held in

August 1999, but the IMF and Equatorial Guinea remain at an impasse. Spain and France are important bilateral lenders to Equatorial Guinea, but Spanish support is currently limited to non-governmental organizations. With oil revenue increasing rapidly, the government may continue to resist donor pressure for economic reforms. Total external debt in 1999 was $290 million.

OIL

Oil is Equatorial Guinea's most valuable asset, and the country recently has emerged as an important oil producer in the Gulf of Guinea, one of the world's most prospective hydrocarbon regions. Equatorial Guinea's oil production has increased sixfold since 1996, with production averaging 102,000 barrels per day (bbl/d) in 1999. Continuing exploration activities and field development could see production again increase dramatically over the next few years. Following a recent oil discovery, First Deputy Prime Minister Miguel Oyono Ndong Mifumu predicted that Equatorial Guinea would be able to produce nearly 300,000 bbl/d within 2-3 years.

In 1998, President Obiang's government introduced more liberal regulatory and profit sharing arrangements for hydrocarbon exploration and production activities, including a revised and updated Production Sharing Contract (PSC). Government oil revenues increased from 13% of receipts earned from oil exports to 20% in 1998 following the implementation of the new PSCs with the oil companies. Although the increase in oil revenues was significant, the government's share is relatively small by international standards.

In August 1999, Equatorial Guinea closed bidding on a new petroleum licensing round for 53 unexplored deepwater blocks and seven shallow-water blocks in the offshore area to the southwest of Bioko and to the west of Rio Muni. The licensing round was extended from an original deadline of May 10, 1999. The initial response to the round was weak, primarily due to a downturn in crude prices and oil industry restructuring. Winners in the new licensing round are to operate under a favorable fiscal regime that includes sliding-scale royalty rates, and are to receive the majority of revenue until fields achieve significant rates of return.

Houston-based Vanco Energy announced in April 2000, that it had signed a PSC with Equatorial Guinea for the offshore Corisco Deep Block. Vanco's 5-year PSC agreement includes seismic surveys and the drilliing of two exploratory wells. Vanco holds a 100% interest in the Corisco Deep Block, which is comprised of offshore blocks M-12, M-13, M-14, N-12, N-13, and N-14. Chevron announced, on May 15, 2000, that it had signed a PSC for Block L. The block, located offshore Rio Muni, covers an area of 1,640 square miles (4,250 square kilometers). Chevron holds a 100% interest in Block L. Three PSCs, covering five exploration blocks, were granted to Nigeria's Atlas Petroleum. One PSC covers blocks D-11 and D-12 (also known as Block J), which are located offshore west of Bioko. Another block, D-15 (Block I), east of Bioko is covered by a separate PSC. The third PSC covers blocks H-15 and H-16 (Block H), which are located offshore Rio Muni. The two blocks are located north of several recent discoveries made offshore Equatorial Guinea (in Block G). Australia's Roc Oil has begun negotiations to farm-in on the PSC covering the two "H" blocks. When completed, Roc Oil will take a 60% interest in the PSC, but Atlas Petroleum will remain the operator.

Regional relations have been strained over maritime border demarcation, which determines countries' rights to offshore oil deposits. On March 6, 1999, President Obiang signed a decree unilaterally adopting an equidistant median line to define territorial boundaries as stipulated under the UN Convention on the Law of the Sea. Cameroon, Sao Tome & Principe, and Nigeria subsequently accepted the decision as an improvement over oft-disputed traditional boundaries. Relations remained strained, however, because of Nigeria's ongoing border dispute with Cameroon, currently at the International Court of Justice (ICJ) in the Hague, the outcome of which could directly affect Equatorial Guinea's offshore oil interests. In June 1999, Equatorial Guinea petitioned the ICJ to intervene in hearings on the case involving Nigeria and Cameroon. The ICJ authorized Equatorial Guinea to intervene in the case in October 1999 on the basis of the country's arguments to protect its legal rights in the Gulf of Guinea as the maritime boundary between Nigeria and Cameroon is determined. In its Order, the Court fixed April 4, 2001 as the time limit for the filing of a written statement by Equatorial Guinea and July 4, 2001 as the time-limit for the filing of written observations by Cameroon and by Nigeria on that statement.

Complicating matters further, the Nigerian government had questioned Equatorial Guinea's sole ownership of the Zafiro field (Block B). At issue is whether Zafiro is a separate field, or part of an oil structure that straddles the territorial waters of both countries. US-based ExxonMobil (then Mobil) started oil production from the field in September 1996 under a contract with Equatorial Guinea. TotalFinaElf (TFE) holds the lease on the Nigerian block, OML 102, which lies just 3.5 kilometers (2 miles) north of the Zafiro field. TFE and Nigeria claimed that seismic data of the field confirmed that it extended into Nigerian territory. In 1998, TFE (then Elf) drilled two wells on OML 102 and announced a discovery called Ekanga. Equatorial Guinea maintained that the Ekanga wells were drilled in its territorial waters in Block B.

In September 2000, it was announced that Equatorial Guinea and Nigeria had signed a pact delineating their maritime boundaries. The agreement was reached following bilateral meetings held in Nigeria's capital of Abuja. President Obiang and President Obasanjo of Nigeria signed the agreement during Obasanjo's visit to Equatorial Guinea in late September. One of the key provisions of the agreement is Nigeria's recognition of Equatorial Guinea's sovereignty over the Zafiro field.

Production

Oil production from Equatorial Guinea has averaged 102,000 bbl/d for the first seven months of 2000. Production currently comes from two fields both located offshore Bioko. Offshore petroleum reserves were first discovered in 1991 by the Spanish firm CEPSA. The original estimate for the Alba field, just north of Bioko, was 68 million barrels of recoverable condensate with API gravity between 47° and 48°. U.S.-independent firm Walter International began production on the Alba field in late 1991. Production of liquefied petroleum gas (LPG) began in 1997, using wet gas from Alba. Levels of extraction have expanded from an initial 1,700 bbl/d of LPG and 400 bbl/d of condensate to 2,400 bbl/d of LPG by the end of 1997. Alba field production averaged 6,700 bbl/d in 1999. An expansion project on the field is projected to be completed by the end of 2000. When the expansion is completed, Alba's production of condensate will be 14,500 bbl/d with an additional 1,800 bbl/d of natural gas liquids. U.S.-based CMS Energy acquired Walter International's share (52%) in the field in 1995 and became the field's operator. Other partners in the field include Noble Affiliates (34%), Globex International (11%), and the government of Equatorial Guinea (3%).

The Zafiro field was discovered (Block B) by a consortium, comprised of ExxonMobil and Ocean Energy (Ocean), in March 1995. The field is northwest of Bioko, and approximately 23 miles (36 kilometers) south of Nigeria's Edop, Etim and Ofun fields, which ExxonMobil also operates. Initial production of 7,000 bbl/d began in August 1996 and has risen to its present level of more than 100,000 bbl/d. In the first half of 1999, life extension work on the Zafiro Floating Production Storage and Offloading (FPSO) vessel began, which is designed to extend the service life for an additional 10 years without the need for dry dock. Production from the Jade platform began in June 2000. Jade, a fixed platform operating on the Zafiro field, had initial production of 12,000 bbl/d. The $560-million Jade project pushed Zafiro field production to more than 112,000 bbl/d. Jade's production will increase to 60,000 bbl/d by 2002, following the completion of 17 additional wells. Current estimates suggest that the Zafiro field holds recoverable reserves of some 400 million barrels of oil.

In March 1998, ExxonMobil and Ocean announced a renegotiated PSC with Equatorial Guinea for Block B. Under the revised PSA, Equatorial Guinea receives a 5% interest in Block B, ExxonMobil's share falls from 75% to 71.25%, and Ocean's share falls from 25% to 23.75%. The deal was restructured to allow the government to receive more revenue earlier in the life of the PSA.

Exploration

ExxonMobil and Ocean are planning to drill additional exploratory wells on Block B and to assess other exploration prospects by evaluating seismic data. Other discoveries made on Block B include the Opalo East, Topacio, Amatista, Rubi and Serpentina fields. The consortium partners (jointly and independently) are exploring in other areas of Equatorial Guinea. Ocean has acquired the exploration rights for three other blocks (A, C, and D) off the island of Bioko. Ocean holds 100% interest in Blocks A and D. The Ambar-1 discovery was made on Block D in November 1998, and its initial flow was 1,500 bbl/d. Block D is situated between Block B (Zafiro field) and the block containing the Alba field. Ocean stated, in April 2000, that it is about to finalize a deal to farm-out a minimum 50% interest in Block D.

Ocean originally held 94% interest and operatorship of Block C. In May 1999, Ocean and partner SK Corporation (SKC) of South Korea, announced an agreement with ExxonMobil to farm-out a portion of Ocean's working interest on Block C. Under the agreement, Ocean will transfer operatorship of the block to ExxonMobil, after which Ocean will hold 37.6%, ExxonMobil 47.0%, SKC 9.4%, and the government of Equatorial Guinea 6.0%. The transfer is contingent upon ExxonMobil's completion of a work program that calls for the drilling of an exploratory well on the Ostra prospect on the eastern side of Block C, based on existing seismic data. The agreement also calls for additional seismic on the deepwater portion of the block with a second exploratory well by the end of 2001.

Other international firms also are involved in exploration in Equatorial Guinea. TFE and Braspetro, the international subsidiary of the Brazilian state oil company Petrobras, were awarded exploration rights for Block E. TFE (70% interest) and Braspetro (30%) are planning seismic data acquisition and exploratory drilling on Block E.

Dallas-based Triton Energy (Triton) and South Africa's Energy Africa share the exploration rights to blocks F and G, which are both located offshore Rio Muni. Triton, the consortium operator with 85% equity, has made several significant discoveries on Block G. The first discovery, Ceiba-1 (originally known as Mbini-1) had an initial test flow of 12,400 bbl/d of crude with an API gravity of 30°. Triton expects that production from Ceiba-1 will exceed 20,000 bbl/d.

The second discovery, Ceiba-2 was drilled 1 mile (1.6 kilometers) southwest of the Ceiba-1 discovery. Although not tested, Ceiba-2 did confirm the Ceiba field's reservoir continuity. Based on the results of the discoveries, Triton estimated the Ceiba field's recoverable reserves to be between 300 to 500 million barrels. In June 2000, Triton reported that its Ceiba-3 well had confirmed the primary oil reservoir found in the previous discoveries (Ceiba-1 and Ceiba-2) and the well also encountered a deeper oil reservoir. Ceiba-3 was drilled a mile (1.6 kilometers) northeast of the Ceiba-1 discovery. The Ceiba-4 discovery, also announced in June 2000, further confirmed the previous Ceiba discoveries. Ceiba-4 is expected to be the most productive of the discoveries because of the size and quality of the reservoirs encountered during drilling. Ceiba-4 was drilled approximately 1 mile (1.6 kilometers) southwest of Ceiba-2. Results from drilling of the fifth exploratory well on Block G were made public in July 2000. Ceiba-5 encountered the reservoirs found in the previous discoveries, and it also found a deeper pool with an additional high-quality reservoir not seen in any of the previous Ceiba wells. The Ceiba-5 well was drilled in 2,622 feet of water, about 1.75 miles (2.9 kilometers) northwest of Ceiba-3. Triton reported in September 2000 that the Ceiba-6 well was plugged and abandoned after it encountered no oil and gas shows. The drilling of the first of six additional exploration wells on Block G is scheduled to begin in October 2000.

Triton, with government approval, has decided to fast-track development of the Ceiba discoveries. The development is similar to that carried out by the ExxonMobil-led consortium on the Zafiro field. The Ceiba-4 well was completed in August 2000, and completion work on the first three wells is underway. Upon completion the wells will then be ready for hookup to the field's early production system. A FPSO, the Sendje Berge, will be used to produce the Ceiba field's initial production of 52,000 bbl/d. The FPSO, with oil storage capacity of 2 million barrels, is scheduled to arrive at the Ceiba field in October 2000. It is outfitted to initially process 60,000 bbl/d and first production is expected before the end of the year. The Ceiba-5 well has been temporarily suspended. Plans call for Cieba-5 to be brought online after the first four Ceiba wells begin production.

Downstream

Equatorial Guinea imports all of its refined petroleum products. Total petroleum consumption is estimated at 1,000. The company Getotal, which was owned evenly by TFE and the government of Equatorial Guinea, is the only downstream participant in Equatorial Guinea's petroleum sector. TFE increased its equity in Getotal in July 1998, and it currently has 80% equity in the company.

NATURAL GAS

Plans currently are underway to begin utilization of natural gas from the offshore Alba field. Atlantic Methanol Production Company (AMPCO) is constructing a new $450-million methanol plant on Bioko. Due to begin production in the second quarter of 2001, the plant's output will be used to make chemicals, solvents, fuel additives, and building materials. Two U.S. companies - Noble Affiliates and CMS Energy - each hold a 45% share in the plant, and Equatorial Guinea's government holds the remaining 10%. The partners expect to produce 20,000 bbl/d (2,500 metric tons) of methanol from natural gas feedstock of 120 million cubic feet of gas per day (Mmcf/d) from the Alba field. Gas produced from the Alba field has been flared since condensate production began in 1991. The U.S. Overseas Private Investment Corporation (OPIC) approved, in June 2000, its largest ever financing in Africa in support of the plant project. OPIC, a federal agency that promotes U.S. business interests, will provide a $173-million loan guarantee for construction of the plant. OPIC is also providing $200 million in political risk insurance for the AMPCO project.

CMS Energy and its Alba field partners have accelerated development plans on the Alba field to increase the field's production capacity from 90 Mmcf/d to 225Mmcf/d. In addition to the 120 Mmcf/d that will be used as feedstock for the AMPCO plant, 10 Mmcf/d of naturals will be used for onshore operations and the remainder will be reinjected into the Alba field. Houston-based Global Offshore International was awarded the contract for the $115-million field development program. The existing production platform was replaced and a second platform was installed on the Alba field. The project also includes a 19-mile (32 kilometer) pipeline from the Alba field to Bioko and gas reinjection facilities. Several new wells are also being drilled and completed. New field development and drilling operations are to be completed by October 2000.

An additional gas and condensate discovery was made in waters offshore Bioko. The find, Luba East, located 4 miles (7 kilometers) to the north of the Alba field, produced 18 Mmcf/d of natural gas and 2,100 bbl/d of condensate from its initial test drilling. If deemed commercially viable, production may be tied into the Alba field development.

ELECTRICITY

Equatorial Guinea currently has an electrical generation capacity of 5 megawatts (MW). The majority of the country's capacity (4 MW) is oil-fired thermal capacity and the remaining 1 MW of capacity is hydroelectric. The Riabo Dam, which provides the majority of power on Bioko, has been in operation since 1989. Equatorial Guinea's total electricity generation was estimated at 21 million kilowatthours in 1998.

A new, gas-fired, 4-6 MW electricity plant is under construction at the AMPCO complex on Bioko. This build-operate-transfer (BOT) project will double Equatorial Guinea's current generating capacity. Gas supplies for the new plant will come from existing sources (Alba field), as well as future associated and non-associated gas finds offshore Bioko.

Sources for this report include: Africa Energy and Mining; CIA World Factbook 2000; Dow Jones newswire; Economist Intelligence Unit ViewsWire; Financial Times African Energy; International Monetary Fund; Oil and Gas Journal; Petroleum Intelligence Weekly; U.S. Energy Information Administration; World Bank

COUNTRY OVERVIEW

President: Teodoro Obiang Nguema Mbasogo
Prime Minister: Angel Serafin Seriche Dougan
Independence: October 12, 1968 (from Spain)
Population (July 2000E): 474,214
Location/Size: West Central Africa -- the mainland region of Rio Muni borders the Atlantic Ocean just north of the Equator between Cameroon and Gabon; the islands of Bioko, Annobon, Elobey Grande, Elobey Chico and Corisco lie in the Atlantic Ocean / 28,050 square kilometers (10,831 square miles), about the size of Maryland
Major Cities: Malabo (capital) on island of Bioko, Bata on mainland enclave of Rio Muni
Languages: Spanish and French (official languages), Fang, Pidgin English, Bubi
Ethnic Groups: Fang (constitute majority of mainland population), Bubi (on Bioko), Annobonese, Ndowe, Kombe, and Bujebas
Religion: Christian (predominantly Roman Catholic), Traditional Beliefs
Defense (1998E): Army (1,100), Navy (120), Air Force (100)

ECONOMIC OVERVIEW

Minister of Economic Affairs & Finance: Baltasar Engonga Edjo
Minister of State in Charge of Economy & Commerce: Marcelino Nguema Onguene
Currency: Communauté Financière Africaine (CFA) franc; CFA franc fixed to the Euro since Jan. 1, 1999
Market Exchange Rate (10/12/00): US$1 = 773.4 CFA; 1 Euro = 656.0 CFA
Gross Domestic Product (GDP) (1999E): $0.75 billion
Real GDP Growth Rate (1999E): 15.0%
Consumer Price Inflation Rate (1999E): 6.0%
Current Account Balance (1999E): -$105 million
Major Trading Partners: Cameroon, China, France, Italy, Japan, Netherlands, Spain, United Kingdom, United States
Merchandise Exports (1999E): $555 million
Merchandise Imports (1999E): $300 million
Merchandise Trade Balance (1999E): $255 million
Major Export Products: Oil, timber, cocoa
Major Import Products: Food, clothing, petroleum products, automobiles, machinery, iron and steel
Total External Debt (1999E): US$290 million

ENERGY OVERVIEW

Minister of Mines and Energy: Cristobal Menana Ela
Proven Oil Reserves (1/1/00): 12 million barrels
Oil Production (1999E): 102,000 barrels per day (bbl/d), of which 80,000 bbl/d is crude oil
Oil Consumption (1999E): 1,000 bbl/d
Net Oil Exports (1999E): 101,000 bbl/d
Natural Gas Reserves (1/1/00): 1.3 trillion cubic feet
Electric Generation Capacity (1/1/98): 5.0 megawatts
Electricity Generation (1998E): 21 million kilowatthours

ENVIRONMENTAL OVERVIEW

Minister of Forestry and Environment: Teodoro Nguema Obiang
Total Energy Consumption (1998E): 0.002 quadrillion Btu* (0.001% of world total energy consumption)
Energy-Related Carbon Emissions (1998E): 0.04 million metric tons of carbon (0.001% of world carbon emissions)
Per Capita Energy Consumption (1998E): 4.94 million Btu (vs. U.S. value of 350.68 million Btu)
Per Capita Carbon Emissions (1998E): 0.09 metric tons of carbon (vs. U.S. value of 5.53 metric tons of carbon)
Fuel Share of Energy Consumption (1998E): Oil (98.6%)
Fuel Share of Carbon Emissions (1998E): Oil (100.0%)
Status in Climate Change Negotiations: Equatorial Guinea is not a signatory to the United Nations Framework Convention on Climate Change (in accession) or to the Kyoto Protocol (in accession)
Major Environmental Issues: Deforestation, wildlife destruction, non-potable tap water and desertification

Major International Environmental Agreements: A party to the Conventions on Biodiversity, Desertification, Endangered Species, Law of the Sea and Ship Pollution

OIL AND GAS INDUSTRIES

Organization: No state company or firm participation in upstream activities; downstream activities - Getotal (owned by TotalFinaElf-80% and Equatorial Guinea-20%)
Major Oil Fields: Zafiro (producing about 100,000 bbl/d), Alba (6,700 bbl/d), Ceiba (under development)
Major Foreign Oil Company Involvement: CMS Energy, Energy Africa, ExxonMobil, Globex International, Noble Affiliates, Ocean Energy, Petrobras, SK Corporation, TotalFinaElf, Triton
Refineries: None
Pipelines: None
Terminals: None

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